Horizon

**The Berenberg Capital Market Outlook
Wealth and Asset Management**

Waiting for more clarity

In the course of the third quarter, the medium-term tariff situation is likely to become clearer and investors will focus on Trump's tax plans. The economic figures and company results for the second quarter should remain difficult to interpret due to tariff effects and offer little clarity. The US economy appears to be slowing down and the recovery in Europe is hesitant.

Bull year remains tough

Investor sentiment and positioning are not optimistic, so more clarity offers opportunities for a further rally in equities. However, seasonality is traditionally weak for equities in the third quarter and uncertainty remains elevated with Trump remaining unpredictable.

Risk from interest rates

Rising fiscal spending worldwide makes a recession less likely. This supports equities, gold and commodities. (Government) bonds, on the other hand, are the ones suffering as more supply meets less demand. Inflation is likely to remain structurally elevated. For us, rising US yields are a key risk for the markets.

Q3 2025

BERENBERG

Foreword

Prof Dr Bernd Meyer
Chief Investment Strategist

Dear readers,

The second quarter brought a lot of back and forth on the markets, but hardly any real progress. US President Donald Trump's "liberation day" on 2 April was not a liberating blow, but a drumbeat. The announced tariffs triggered the fastest and strongest correction in share prices since the COVID-19 crisis. The uncertainty was so great that Trump suspended these tariffs for 90 days just a few days later. The US austerity measures (DOGE) are failing to meet the ambitious targets and are likely to come to nothing. Instead, the planned tax cuts are likely to widen the budget deficit. Yields on long-term US government bonds rose, the US dollar weakened further and growth expectations were reduced. Together with production increases by OPEC, this depressed the oil price until the Israel-Iran conflict gave it a new tailwind. With the pause in the customs dispute, the stock markets recovered and are betting on trade agreements. They are now close to the levels seen at the beginning of the quarter. Gold is and remains the main winner in this environment.

Uncertainty is likely to remain significantly heightened in the third quarter. As long as the markets do not react strongly negatively, Trump will probably continue to try to improve the US position in the tariff negotiations through threats. More clarity is only likely to emerge with trade agreements. The effects of the tariff dispute on the economy and companies will become increasingly apparent in the third quarter, although the data will not provide a clear picture due to distortions surrounding the tariffs. With the recovery from mid-May, the stock markets are already betting on the customs dispute calming down. The valuation of equities, especially in the US, remains high, while earnings growth expectations for 2025 are declining. And the support provided by lower energy prices has disappeared again for the time being. In our view, however, it would be wrong to become too pessimistic about equities. There are many supportive factors: fiscal stimulus in Germany, tax cuts in the US, the global easing of monetary policy over the past year, a productivity boost from artificial intelligence and increased government spending in the run-up to the mid-term elections and the 250th anniversary of the US. In addition, deregulation efforts in the US and perhaps even in Europe could also provide positive impetus. Less likely, but still supportive, would be economic stimulus programmes in China and Japan as well as the reduction of tariffs. In addition, investor sentiment and positioning, especially of systematic strategies, is not optimistic. We are therefore sticking to our forecast that this year will be a bull year, albeit a tough one. Stronger setbacks should offer buying opportunities. We remain sceptical about (US) government bonds and prefer tangible assets such as equities, precious and industrial metals instead.

In the Insights interview starting on p. 14, Tobias Schäfer, Head of Fund Strategies and Manager Selection, discusses the trends currently shaping the fund landscape, what is important when selecting funds and what distinguishes our recently launched fund-based asset management strategy "Berenberg Go". I wish you an exciting read.

Bernd Meyer

Contents

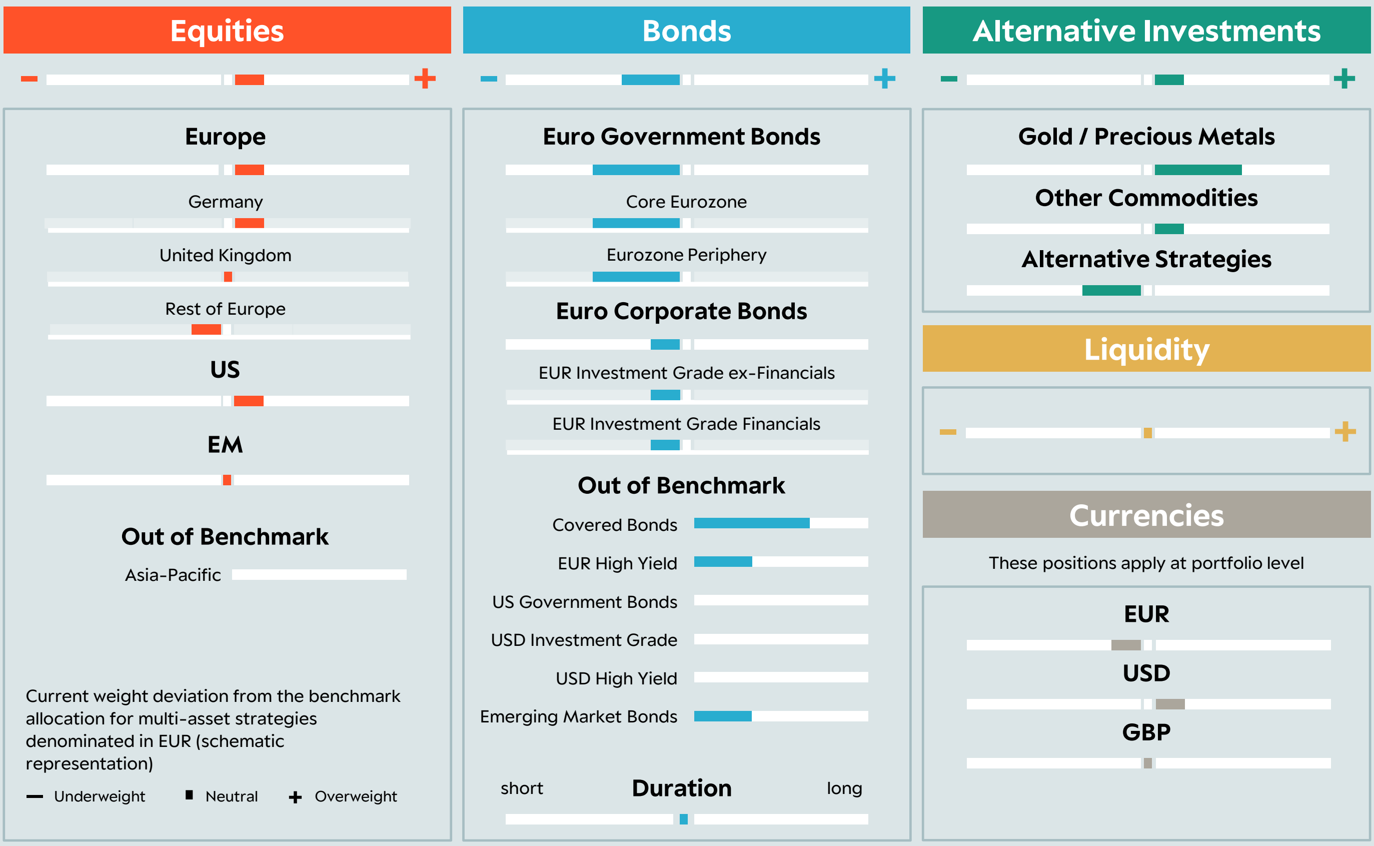
Some relaxation after the tariff theatre

In a nutshell

- A lack of optimism among investors, reduced expectations for the economy and profits are likely to support risky investments with more clarity on tariffs and tax cuts.
- However, economic data that is difficult to interpret, a weaker US economy, Trump's unpredictability, the war between Israel and Iran and the risk of rising yields on long-term bonds keep the risk high and argue against large positions.
- We continue to favour gold, industrial metals and equities. Setbacks in equities should offer opportunities. In bonds, our focus remains on capturing risk premiums with shorter to medium duration. Gold remains the largest overweight.

Portfolio positioning at a glance

We used the market correction at the beginning of April due to the customs announcement to increase our equity allocation to a slight overweight. After the rapid recovery of the stock markets following the customs pause announced a few days later, we took these profits. We also benefited from a temporary tactical reduction in gold. We remain convinced that, in view of the high level of uncertainty, a balanced, well-diversified positioning and the use of increased volatility for tactical, anti-cyclical positions makes more sense than taking large active positions with only limited conviction. Our strategies therefore remain broadly diversified and almost balanced. However, our conviction that tangible assets should be preferred to nominal government bonds in an environment of exploding government debt and structurally higher inflation is clearly reflected in our positioning. Gold remains the largest overweight and is supplemented by other commodities, especially industrial metals, in strategies that allow this. Equities are slightly overweighted. Bonds, especially government bonds, are underweighted. In the case of bonds, we prefer covered bonds, high-yield bonds and local currency bonds from emerging markets.



Review of the second quarter – lots of volatility, little trend

Trump's announcement of reciprocal tariffs on 2 April triggered the fastest and sharpest sell-off in equities since the COVID-19 crisis. Volatility also rose to its highest level since March 2020. The uncertainty on the markets was so great that Trump suspended the announced tariffs for 90 days just a few days later. The same step was only taken for China after a further escalation in May. The stock markets subsequently recovered from their correction and are now close to the levels seen at the start of the quarter. It became apparent that the budget deficit in the US is likely to increase further. In line with this, the rating agency Moody's downgraded the creditworthiness of the US. Yields on long-term US government bonds rose and the US dollar depreciated further. Fears about growth weighed on industrial metals and, together with announced OPEC production increases, depressed the oil price until the Israel-Iran conflict gave them tailwind. The price of gold continued to rise.

Economic outlook – data in summer not very meaningful

With the tariff chaos, negative US growth in the first quarter and negative US economic surprises, the consensus expectation for US growth in 2025 has fallen by around 1ppt from its high in February to 1.4% (top chart, p5). Companies are holding back on investments and consumers on spending. In Europe, expectations are only slightly lower but a recovery appears to be delayed. Earnings growth expectations for 2025 have also been revised downwards globally, for example for the S&P 500 from 14% at the start of the year to just 8% at present, despite the positive Q1 reporting season. The reduced expectations are much more realistic, especially for US earnings, which are benefiting from the weak dollar. More clarity on tariffs and prospects of US tax cuts increasingly support the economy. However, the economic and earnings data for the second quarter are unlikely to provide a clear picture. The underlying picture is overshadowed by tariff effects. For example, high imports (pull-forward effects) weighed on US growth in the first quarter. The collapse in imports in the second quarter could now support growth. US inflation is likely to pick up again and the Middle East conflict is causing higher oil prices. Uncertainty will remain high.

Trump's race for the midterm elections is likely to determine a lot

At around USD170bn, Elon Musk's American savings efforts (DOGE) fall short of his target of USD1trn-2trn and are likely to come to nothing with his departure. Instead, the Trump administration is now trying to "grow its way out" of the debt crisis by means of tax cuts. Whether this will succeed is unclear. What is certain is that the plans will initially result in even more debt – an estimated USD2trn-3trn over 10 years, most of it in the next few years (middle illustration, p5). The details of the tax plans and their implications are likely to be among the defining issues in the third quarter. It is unlikely that the plans will be adopted before August or September. However, Trump is under pressure to deliver on his election promises and stimulate the flagging economy, as the mid-term elections are less than 18 months away and his approval ratings are in the basement. To avoid looking like a "lame duck" afterwards, Trump needs a strong labour market, a robust economy and low interest rates.

Gold rises again in Q2, Euro bonds with positive development, equities largely unchanged, oil prices fall slightly, dollar significantly

Total return	YTD and in Q2 25 (in %, in EUR)		12-month periods of the last five years (in %, in EUR)					CAGR*	Std. Dev.*
	YTD (31/12/24–17/06/25)	Q2 25 (31/03/25–17/06/25)	17/06/24 17/06/25	17/06/23 17/06/24	17/06/22 17/06/23	17/06/21 17/06/22	17/06/20 17/06/21	17/06/20 17/06/25	17/06/20 17/06/25
DAX	17.7	5.7	29.7	10.5	24.6	-16.5	27.0	13.6	17.3
Gold	16.4	2.2	36.6	20.7	2.2	17.6	-3.0	14.0	13.6
Stoxx Europe 50	6.3	0.0	2.9	14.3	23.2	-3.5	20.9	11.1	13.9
EUR Corporates	1.7	1.6	6.0	6.4	0.8	-13.5	3.3	0.3	3.1
EUR Sovereigns	1.6	1.4	4.9	3.3	-1.9	-9.1	0.6	-0.6	3.3
MSCI EM	1.4	2.9	6.4	9.2	1.1	-14.2	32.0	5.9	15.4
Euro Overnight Deposit	1.2	0.5	3.1	3.9	1.5	-0.6	-0.5	1.5	0.1
Brent	-3.5	-2.7	-4.7	25.2	-21.0	107.7	64.2	26.3	32.7
EM Sovereigns	-6.3	-4.4	0.7	11.1	1.0	-7.3	1.0	1.1	7.7
US Sovereigns	-7.4	-6.1	-3.1	3.5	-4.7	1.9	-8.4	-2.2	7.0
S&P 500	-7.9	0.5	3.3	28.5	16.9	0.4	30.1	15.1	17.4
USDEUR	-9.8	-5.8	-6.5	1.9	-4.0	13.4	-5.6	-0.4	7.5

Time period: 17/06/2020–17/06/2025.
Source: Bloomberg * CAGR = annualised return (in %, in EUR); Std. dev. = Annualised standard deviation (in %, in EUR).

Rising sovereign debt: Risk for government bonds and the dollar, opportunity for tangible assets (equities, gold), global diversification

However, higher debt, robust growth and persistently high inflation argue against falling yields. In the coming years, the US government will probably have to find buyers for an additional USD500bn-600bn in government bonds every quarter. This is only likely to succeed with high yields and an even weaker US dollar (lower figure), especially as rising government debt is a global phenomenon. The IMF recently emphasised that in countries that account for 80% of global GDP, government debt is higher than before the pandemic and the increase is accelerating. Trump can hardly hope for lower interest rates from the Fed in the short term either. Federal Reserve chairman Jerome Powell is still in office until May 2026. Trump's only option is to determine his successor early on with someone who is in favour of interest rate cuts, renewed quantitative easing or even control of the yield curve – in the hope that the markets are already pricing this in. Whether this will help to stop the rising bond yields of longer maturities seems questionable to us, however.

Government bonds are the victims when high, rising and procyclical fiscal spending makes a recession less likely, increases the supply of bonds and supports equities, gold and other commodities. Last, but not least, the associated inflation risks make the protection of purchasing power more important for investors. We have long argued that an environment of rising government debt, increasing fiscal dominance and financial repression to ensure the debt sustainability of the state argues for a significant proportion of investments with a tangible asset character in the portfolio, at the expense of bonds. In recent decades, the price of gold has risen in parallel with US debt (middle chart). If both continue to develop in parallel, the price of gold is likely to reach USD6,000 per ounce in 2035. This would correspond to an annualised yield of 6.3%. We consider further increases in US bond yields for longer maturities to be the main risk for the markets. However, a weakening US economy could temporarily reduce this risk. The US dollar is likely to weaken further in the medium term, similar to the phase from 2003 to 2008. A normalisation of the valuation of the US dollar and of US dollar investments in the coming years is likely, which points to a better medium-term relative performance of investments outside the US. In particular, investors who have bet heavily on US investments in recent years should reconsider this.

Prof. Dr. Bernd Meyer, Chief Investment Strategist

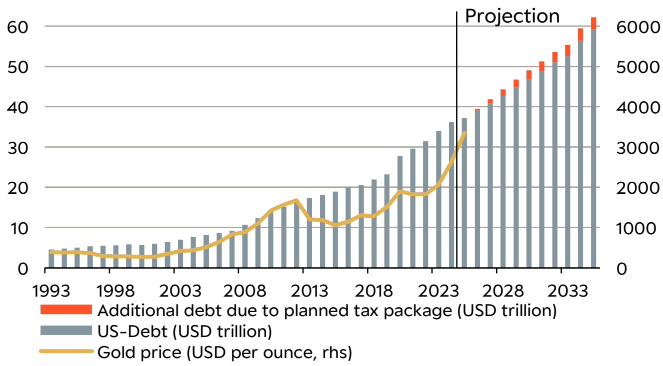
Declining growth expectations, especially for the US

With the Trump hype, expected US growth in 2025 peaked in February, but then fell with the tariff theater in Q2

Time period: 31/12/2024–17/06/2025
Source: Bloomberg

Potential for the gold price to increase with US debt

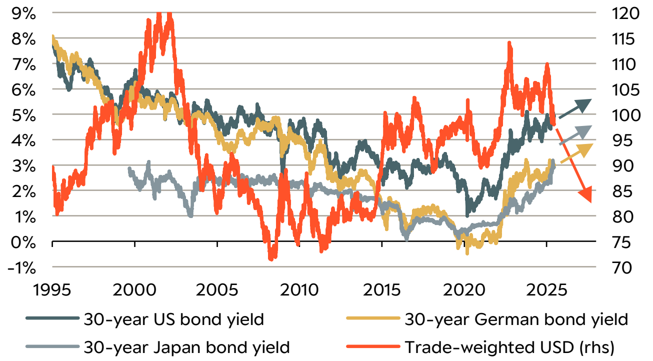
In view of rising government debt and a depreciating US dollar, not only in the USA, gold remains in demand as a safe haven



Time period: 31/12/1993–31/12/2035; As of: 17/06/2025
Source: Bloomberg, Congressional Budget Office, own calculations

Probably weaker dollar and further rise in bond yields

30-year bonds have risen to 5% in the USA and 3% in Germany and Japan; US dollar falls despite rising UST yields



Time period: 01/01/1995–17/06/2025
Source: Bloomberg, own calculations






US tariffs prevent more growth

In a nutshell

- Trump's tariff policy is weakening the USA and postponing the recovery in the eurozone. Trade deals until July 2025?
- New German government: tailwind from reforms and additional spending on the military and infrastructure.
- The Fed and now the ECB have reached the end of the interest rate cycle.

Europe: US tariff policy postpones eurozone recovery

At 0.6%, real gross domestic product in the eurozone expanded more strongly than expected in the first quarter compared to the previous quarter. In addition to a sharp rise in investments, higher exports, in particular, contributed to the good result. The strong exports are probably due, in particular, to pull-forward effects as companies sought to preempt the threat of US tariffs.

The unpredictable US tariff policy is currently the main factor holding back the European economy. Negotiations between the US and the European Union (EU) have been slow in recent months. Most recently, Trump has once again significantly increased the pressure. He has doubled import tariffs on steel and aluminum to 50% and is also threatening to impose tariffs of 50% on all goods from the EU, which could come into force from 9 July. An escalating tariff dispute between the US and the EU would hit both sides hard. We therefore expect that at least a framework agreement will be reached soon. However, Trump is unlikely to withdraw his tariffs completely, so we expect the average additional US tariff on imports from the EU to end up at around 10%. This would mean that the duties that European companies would have to pay for imports into the US would be significantly higher than before Trump's second term in office. However, an end to the planning uncertainty would stimulate the local economy. The fact that the European Central Bank (ECB) lowered the deposit rate for the eighth time since mid-2024 to 2.0% on 5 June is also having a positive effect. This monetary easing will have an increasingly positive impact on the real economy. Meanwhile, the labour market remains stable and rising fiscal spending, particularly in Germany, will provide an additional tailwind from the turn of the year. After a currently weaker economic phase, this is likely to help the eurozone to regain some momentum in the coming quarters.

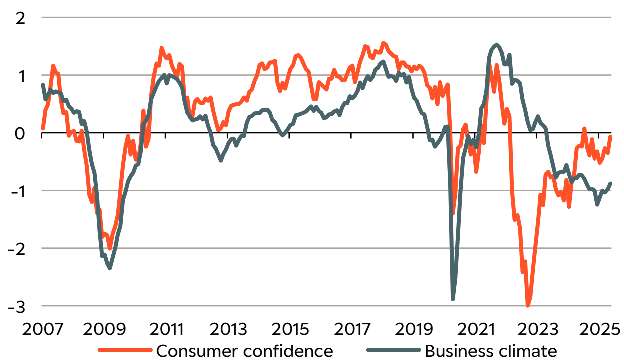
An agreement in the trade dispute between the US and the EU would be a catalyst for more growth for the eurozone economy in the second half of the year.

Germany: New government must tackle reforms

The challenges facing the new federal government are manifold. They range from geopolitical threats to economic structural problems. The easing of the debt brake for additional expenditure in the areas of infrastructure and defence will help to overcome these challenges.

Sentiment in Germany is slowly brightening somewhat

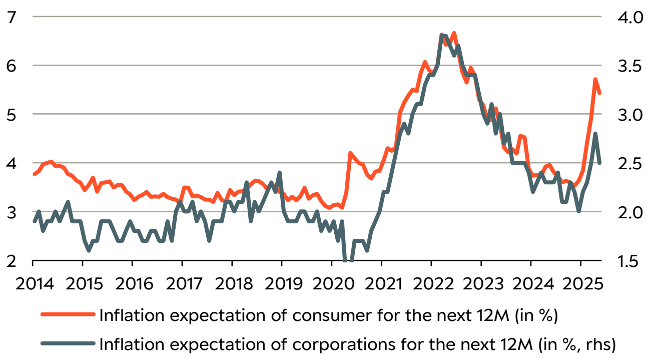
Consumer confidence and business climate in Germany



Period: 01/01/2007 – 31/05/2025. Deviation from the mean value in standard deviations.
Sources: Eurostat, European Commission, Berenberg

USA: Short-term inflation expectations have risen recently

Inflation expectations of consumers and companies for the next 12 months in %



Period: 01/01/2014 – 31/05/2025. Consumer: Average of the Conference Board, the University of Michigan and the New York Fed. Companies: Expected change in unit costs.
Source: Haver Analytics, Bloomberg, Berenberg

But money alone will not solve the problems. It will be important for the new government to present a united front and tackle reforms on the supply side in particular. In addition, care must be taken to ensure that the newly gained fiscal policy leeway is not used for consumptive expenditure, but that the additional funds flow into future-oriented investments. It will take until 2026 for the new funds to flow on a larger scale. However, they are then expected to enable the German economy to achieve growth rates of over 1% again after three years of stagnation.

US: Trump harms the USA more than other countries

While the US has reached an initial trade agreement with the UK and concluded a framework agreement with China, negotiations with the EU are progressing more slowly. Overall, the US economy still appears to be quite robust. However, the restrictive immigration policy under Trump and the protectionist trade policy are likely to significantly slow down growth in the US in the coming months. In view of the high level of uncertainty, companies are holding back on investments and consumer sentiment has also deteriorated recently. Precisely because the damage to the US could otherwise be so significant, we expect Trump to conclude trade agreements with the EU and other regions by mid-July and de-escalate the dispute with China in his own interests. Following the markets' negative reaction to the tariff shock on 2 April, he has suspended most additional tariffs for 90 days. He apparently does react when markets and companies show him the red card.

No further interest rate cuts by central banks in sight

The more restrictive US immigration policy and higher import tariffs will increase price pressure in the US and cause the inflation rate to rise again in the coming months. The recent rise in oil prices due to the escalation in the Middle East will also contribute to inflation. The short-term inflation expectations of consumers and companies in the US have already risen significantly recently. At the same time, the labour market remains robust, meaning that the Fed can continue to focus on fighting inflation and will not lower the key interest rate any further. In the eurozone, on the other hand, inflation fell to 1.9% in May compared to the previous year. To a limited extent, this is also due to the customs dispute with the US, which is currently dampening inflation. The strong euro is making imports cheaper and Chinese goods, which are being redirected to Europe due to the high US tariffs, are increasing price competition in the eurozone. The fall in inflation has enabled the ECB to cut the deposit rate again on 5 June by 25bp to 2.0%. However, this could be the last interest rate cut. ECB President Christine Lagarde repeatedly emphasised that the ECB now considers itself "in a good position" to navigate through "the uncertain conditions that lie ahead". This supports our view that the ECB has completed its monetary easing for the time being. However, much depends on how the trade dispute between the US and the EU develops. If the negotiations drag on longer than expected or escalate further, thereby having a greater impact on the economy in the eurozone, the ECB would have the option of lowering the key interest rate even further.

Dr. Felix Schmidt, Senior Economist

Growth and inflation forecasts

	GDP Growth (in %)						Inflation (in %)					
	2025		2026		2027		2025		2026		2027	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	1.6	1.4	1.6	1.6	1.6	1.9	3.0	3.0	2.8	2.8	2.6	2.4
Eurozone	1.0	1.0	1.3	1.1	1.5	1.5	2.0	2.0	1.8	1.9	2.2	2.0
Germany	0.3	0.2	1.2	1.1	1.4	1.7	2.1	2.2	1.6	2.0	2.2	2.0
France	0.3	0.5	0.9	0.8	1.2	1.3	0.8	1.0	1.7	1.6	2.1	1.8
Italy	0.7	0.5	1.1	0.8	0.9	0.9	1.8	1.8	1.8	1.7	2.2	1.9
Spain	2.4	2.4	2.3	1.8	2.4	1.8	2.1	2.3	1.8	1.9	2.2	2.0
UK	1.2	1.1	1.2	1.2	1.5	1.5	3.4	3.1	2.4	2.3	2.2	2.0
Japan	1.1	0.8	1.0	0.7	1.0	0.8	3.1	2.8	2.0	1.8	1.7	2.0
China	4.4	4.5	4.0	4.2	3.9	4.1	0.2	0.3	1.3	1.0	1.9	1.5
World*	2.4	-	2.4	-	2.4	-	-	-	-	-	-	-

* Berenberg data at actual exchange rates, not purchasing power parities (PPPs). PPPs lend more weight to the fast-growing emerging-market countries.
** Average, Bloomberg consensus as of 20/06/2025.

US all-time highs only a matter of time

In a nutshell

- US equites stagnate in euros, DAX benefits from the new government's policy change.
- Earnings expectations for US companies have fallen, uncertainties due to politics and the trade dispute are a burden. However, we no longer expect any major negative earnings revisions.
- New highs also possible in the US in the medium term, mainly thanks to the tech sector and demand from underinvested investors.

Cyclicals took the lead in the second quarter

Most stock markets increased in the second quarter, while US equities stagnated in euro terms. The main reason for this was the 6% devaluation of the US dollar against the euro. Cyclical sectors performed better than defensive sectors. Since the beginning of the year, the DAX has outperformed the S&P 500 by around 27% (in the same currency), thanks in part to German infrastructure and defence programmes.

Negative earnings revisions likely to subside

Earnings expectations for the S&P 500 have been revised downwards from 14% to 8% for 2025 – which is a more realistic assessment in view of a weakening US economy. However, Trump's unpredictable behavior, lower immigration and higher tariffs could put additional pressure on corporate profits. On the other hand, fiscal stimuli and the weaker US dollar are having a positive effect, which is benefiting particularly export-oriented US tech companies. In addition, deregulation efforts are likely to have a supportive effect as the year progresses. European exporters, on the other hand, are suffering from the strong euro, but are benefiting from lower energy prices and government programmes. The German economy should gain momentum in the second half of the year. European banks remain attractive: they are less susceptible to currency fluctuations and tariffs, and benefit from steeper yield curves.

Recession now priced out again

After consensus still saw a recession probability of around 50% for the US in April, this figure has recently fallen significantly, in line with Trump's retreat in the tariff dispute. Although US earnings estimates have been reduced in recent months, the S&P 500 has recovered more than 20% from its lows – and valuations have risen with the price. While European stocks are trading close to their historical averages, the P/E ratio for the S&P 500 is almost 22 – 25% higher than the historical average since 1987.

New all-time highs also likely in the US

Q3 is likely to see another spikes in volatility. This is indicated by weakening US economic data, lower liquidity over the summer months and Trump's erratic behavior. In the past, he has often questioned impending "deals" in order to renegotiate them. If the same happens this time, this could lead again to (short-term) uncertainty in July/August. However, we assume that the setbacks will actually be seen as a buying opportunity. We also do not expect the lows of April to be revisited, as less optimistic investor sentiments and positioning should also result in a smaller correction.

Europe continues to outperform the USA in the second quarter in terms of single currency

Total return	YTD and in Q2 25 (in %, in EUR)		12-month periods of the last 5 years (in %, in EUR)					P/B*	Div.*	P/E*
	YTD (31/12/24–17/06/25)	Q2 25 (31/03/25–17/06/25)	17/06/24 17/06/25	17/06/23 17/06/24	17/06/22 17/06/23	17/06/21 17/06/22	17/06/20 17/06/21	17/06/25	17/06/25	17/06/25
DAX	17.7	5.7	29.7	10.5	24.6	-16.5	27.0	1.9	2.6	15.4
Stoxx Europe Cyclicals	15.7	6.5	20.7	19.3	21.2	-14.1	38.1			
MSCI EM Latin America	14.3	6.0	5.3	-6.6	22.7	-1.7	30.0	1.6	5.9	9.3
Euro Stoxx 50	10.1	2.3	11.0	13.8	31.1	-15.2	30.1	2.0	3.2	14.5
Stoxx Europe Small 200	7.6	6.3	7.5	8.7	7.5	-19.5	37.6	1.5	3.4	13.5
MSCI UK	6.6	1.3	11.0	12.1	13.1	4.7	23.0	1.6	4.1	12.8
Stoxx Europe 50	6.3	0.0	2.9	14.3	23.2	-3.5	20.9	2.1	3.6	14.7
Stoxx Europe Defensives	5.9	-0.9	3.9	10.3	12.3	3.0	12.0			
MSCI EM Asia	0.5	3.7	6.1	11.4	-0.6	-15.1	32.8	1.8	2.4	13.2
MSCI Japan	-2.7	1.2	5.3	9.4	17.9	-11.2	16.5	1.4	2.6	15.5
S&P 500	-7.9	0.5	3.3	28.5	16.9	0.4	30.1	4.7	1.4	21.6
MSCI USA Small Caps	-13.3	-1.7	-0.7	12.3	11.2	-11.3	49.6	1.6	2.1	18.6

Time period: 17/06/2010–17/06/2025.
Source: Bloomberg * PBV = Price/book value ratio; Div. = Dividend yield (%); PER = Price/earnings ratio. Values based on estimates for the next 12 months.

Investors will focus on the Q2 reporting season with regard to profit margins and the outlook. The weak dollar should lead to positive surprises for US companies with a high proportion of international sales. The "higher for longer" US interest rates, on the other hand, are likely to weigh on US companies with high debt levels and high refinancing costs. This is likely to include some US small caps. European small caps, on the other hand, benefit from lower valuations, lower interest rates and better growth momentum in Europe than in the US. Emerging market equities are receiving a tailwind from the weak US dollar and relatively attractive ratings. They remain a worthwhile addition to the portfolio. In view of the increased uncertainty under Trump, we have no strong regional preference for the coming months.

Provided there are no major political surprises, the path of least resistance should be characterised by new highs in the medium term – driven by strong fundamentals in the technology/AI sector, stable demand from systematic strategies as a result of improved volatility and momentum signals as well as buying by active investors in the event of setbacks.

Ulrich Urbahn, Head of Multi-Asset Strategy & Research

What is on companies' minds?

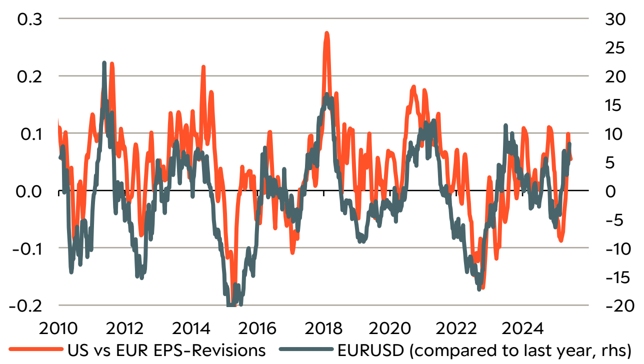
The economy is holding up well

Trade tariffs and their potential impact on the real economy continue to be a major topic in our discussions with companies. Although the US economic data has weakened, it has remained more stable than expected. In keeping with this, American industrial companies are not seeing any weakening across the board, are largely able to cushion the tariffs through price increases, and are likely going to benefit in particular from the unexpected rise in government spending and investment premiums (Big Beautiful Bill). In the healthcare sector, share prices continue to be influenced by regulatory uncertainty in the US, which has led to below-average price recoveries in the sector since "liberation day". The technology sector was also sold off significantly in the wake of fears due to trade tariffs, although growth in AI applications and AI chatbots accelerated again in the last quarter. In Europe, meanwhile, the construction industry is experiencing a new boost due to the planned infrastructure package and is increasingly positive. The defence industry is also benefiting from steadily increasing investment packages. At the same time, local industrial companies are expecting a sustained upturn in automation, driven primarily by China, while other cyclical end markets are still characterised by weakness.

Matthias Born, CIO Equities

US companies likely to benefit from a weak US dollar

Relative earnings revisions for US and European equities and change in EUR/USD compared with the previous year



Time period: 01/01/2010–13/06/2025.
Source: Factset, Berenberg

Forecast summary: Equities likely to continue gaining in H2

Berenberg and consensus forecasts compared, figures for the end of 2025 and mid-2026

	17/06/2025	31/12/2025	30/06/2026	In 12 months
Index forecasts	Currently			Ø*
S&P 500	5,983	6,400	6,600	6,615
DAX	23,435	24,000	25,500	26,174
Euro Stoxx 50	5,289	5,700	6,000	5,920
MSCI UK	2,513	2,600	2,750	2,817
Index potential (in %)				
S&P 500	-	7.0	10.3	10.6
DAX	-	2.4	8.8	11.7
Euro Stoxx 50	-	7.8	13.4	11.9
MSCI UK	-	3.5	9.4	12.1

* Average, consensus bottom-up as of 17/06/2022.
Source: Bloomberg, FactSet, Berenberg.






Bonds: carry remains king

In a nutshell

- Safe government bonds burdened by interest rate volatility, upward potential only to be expected in the event of economic weakness.
- The financial sector remains the favourite for European corporate bonds, while the real estate sector is coming into focus.
- In emerging markets, we consider local currency bonds to be particularly promising.

Opportunities and risks in uncertain times

In the second quarter, Trump's tariff and tax policy caused strong fluctuations on the bond markets. The global impact on the economy, inflation, exchange rates and public finances will continue – this opens up risks, but also offers opportunities. Where do we see these and what else should be considered?

Bleak prospects for safe government bonds

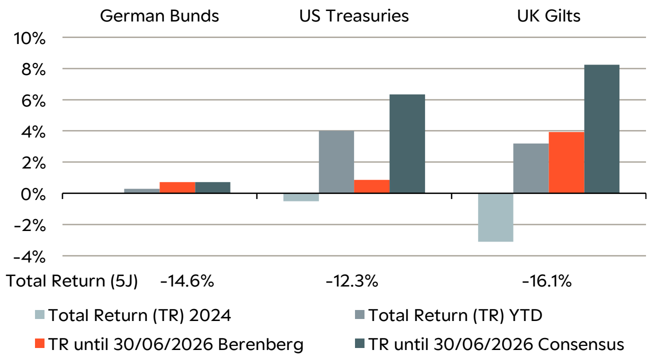
As we expected, the rise of US Treasuries in the first three months of the year did not continue. Instead, safe government bonds from Europe led the way in the second quarter – German government bonds and British gilts rose. In an environment of increasing fears of rising government debt, Moody's followed suit as the last of the three major rating agencies and downgraded the US's credit rating to only the second-highest level. German government bonds, on the other hand, were sought after as a safety anchor in the wake of the market turbulence caused by US tariff policy. They also benefited from a fall in the inflation rate to just 2.1% year-on-year in May and two interest rate cuts by the ECB of 25bp each in April and June. However, the potential is likely to be exhausted – as with the US Fed, we do not expect any (further) interest rate cuts from the ECB until next year (bottom right). In view of the increased variability of macro data due to economic and trade policy factors, the volatility of safe government bonds should also remain high without yields on longer maturities falling permanently. Against this backdrop, government bonds with high and top credit ratings will lack attractive earning prospects in both nominal and real terms for the foreseeable future.

European corporate bonds: focus on carry

The further development of European corporate bonds will largely depend on whether the US and Europe run into economic difficulties and whether this leads to a reassessment of credit risks. There are currently no signs of economic concerns in the risk premiums. Valuations in the investment-grade segment can still be described as fair, whereas the high-yield segment appears rather expensive. However, since the end of the negative interest rate phase, many investors are increasingly focusing on the yield level rather than the risk premium. While yields of 3.2% can be achieved with investment-grade bonds, the figure for high-yield bonds is 5.2%. With regard to the key financial figures of the companies, there are still no signs of any impairment and we are taking advantage of the opportunity to collect a higher current interest rate ("carry") on corporate securities compared to more defensive segments. However, in light of the increased economic uncertainty, we are taking a selective approach and prefer financial bonds to

Safe government bonds: potential low to exhausted

Performance of 10-year government bonds, total effect of price/yield changes, coupon income and roll-down effect



Time period: Time period: 19/06/2020–19/06/2025, returns in local currency.
Source: Bloomberg, own calculations, ICE BofA Government Bond Indices (7–10 years, TR)

Forecasts: base interest rates and government bond yields (in %)

Berenberg and consensus forecasts compared, figures for the end of 2025 and mid-2026

	16/06/2025	31/12/2025		30/06/2026	
USA	**Currently**		**Ø***		**Ø***
Base interest rate	4.25-4.50	4.25-4.50	4.04	4.25-4.50	3.69
10Y US yield	4.46	4.80	4.25	4.90	4.17
Eurozone					
Base interest rate**	2.00	2.00	1.75	2.00	2.00
10Y Bund yield	2.58	2.70	2.70	2.80	2.80
UK					
Base interest rate	4.25	4.25	3.71	4.00	3.41
10Y Gilt yield	4.60	4.70	4.23	4.70	4.12

* Average, consensus as of 16/06/2025, **Deposit rate
Source: Bloomberg.

corporate bonds. The latest quarterly figures for the financial sector were once again solid, and the US tariff policy should only have a minor impact on balance sheets. We also increasingly like issuers from the real estate sector. Their key financial figures have stabilised and they should benefit from the initial appreciation of real estate prices. The sector should receive additional tailwind from lower refinancing costs.

Emerging market bonds: local currencies preferred

After the market turbulence following the tariff announcements on "liberation day" at the beginning of April, US President Trump was forced to backtrack and grant a 90-day pause for negotiations. This has since led to a recovery in risk assets, which has also benefited emerging market bonds. Their risk premiums have now returned to the previously low level. In the preceding period of uncertainty, there was a significant decline in both the price of US government bonds and the US dollar – contrary to the typical flight to supposedly "safe havens". This synchronous weakness was triggered by position adjustments, growing uncertainty about political influence on the US Federal Reserve and rumours of foreign central banks selling their holdings. Among emerging market bonds, the local currency segment benefited in particular. Yields fell further here in April, while US yields rose sharply. Historically, central banks in emerging markets have often waited for a signal from the US Fed before making interest rate decisions, which can be particularly critical in the case of interest rate cuts: if the central banks had cut their key interest rate first, this would have led to capital outflows and devaluation pressure on the respective currency. On the other hand, the recent combination of currency appreciation and yield declines not only shows increased investor confidence in emerging markets, but also gives local central banks the necessary flexibility to cut their key interest rates independently and in line with their economic development. Against this backdrop, we prefer the local currency segment not only because of its attractive interest rates, but also because we expect further declines in yields as inflation has already been overcome and the economy is beginning to cool as a result of tariffs.

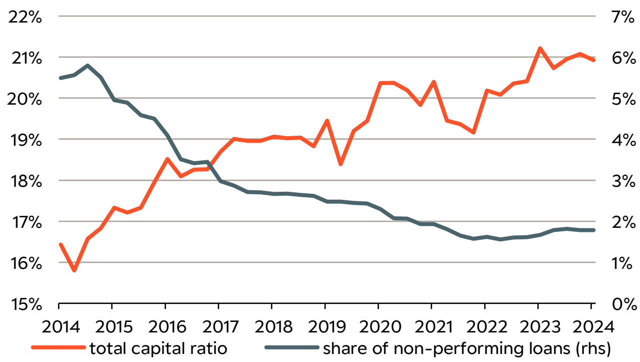
Conclusion: interest rates only attractive beyond the government segment

Safe government bonds do not offer any interesting income prospects, especially not when inflation is taken into account. At best, they are suitable as a safety net for temporary risk-off phases. In contrast, we still see adequate interest rates for corporate bonds, preferably in the financial sector, where solid key figures go hand in hand with lower refinancing costs. Emerging market securities in local currency could benefit from falling yields and, from a euro perspective, from currency effects. They are also interesting from an interest rate perspective.

Martin Mayer, Senior Portfolio Manager Multi Asset
Felix Stern, Senior Portfolio Manager Fixed Income Euro
Wei Lon Sung, Senior Portfolio Manager Fixed Income Emerging Markets

Corporate bonds: banks increasingly better positioned

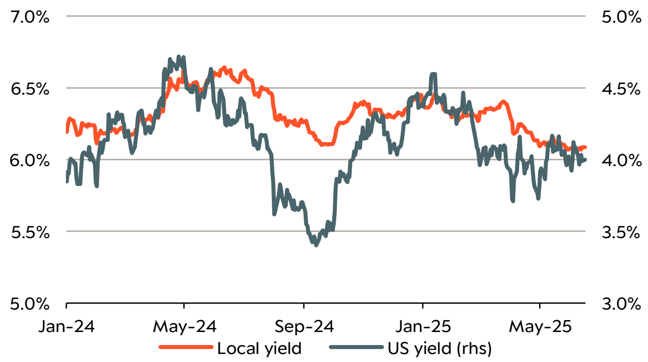
In the European banking sector, the total capital ratio has risen significantly, while the quality of credit books has improved



Time period: 31/12/2014-31/12/2024, quarterly data
Source: European Banking Authority, own calculations

EM countries: flows into local currency securities continue

In contrast to US bonds, the falling yields on local currency securities in recent weeks indicate increasing capital flows



Time period: 01/01/2024-17/06/2025
Source: Bloomberg, own calculations

Gold remains an important portfolio component

Upside potential for crude only if Middle East escalation persists

As a result of "liberation day" and the introduction of unprecedented tariffs, the oil price came under significant pressure at the beginning of the second quarter. This was due to concerns about a global recession, which have depressed the price of North Sea Brent crude by around 13% since 2 April. In addition, the announcement by OPEC+ to increase production by a further 411,000 barrels per day in June and July, due to overproduction by some cartel members such as Kazakhstan and Iraq, weighed on prices. In fact, the cartel is probably also pursuing the goal of regaining lost market share and meeting Trump's interest in a lower oil price. Despite the recent rise in oil prices as a result of the escalation of the Middle East conflict, we expect oil prices to fall again in our base scenario. However, if Iran actually closes the Strait of Hormuz, as already approved by parliament, which would affect 20% of global oil and 30% of LNG supplies, oil prices are likely to remain higher for the long term.

Rising government debt and central bank purchases support gold

Gold was unable to escape the widespread sell-off on the financial markets following the introduction of reciprocal tariffs at the beginning of April. However, temporary growth concerns, a weaker dollar and fears of a sharp rise in government debt in the US counteracted this, and supported the gold price in the second quarter. Continued strong demand from central banks, ongoing geopolitical tensions and the rising US budget deficit, which is increasingly calling into question the sustainability of US debt, are likely to continue to support the gold price in the medium term, alongside a further weakening of the dollar and a neutral positioning to date.

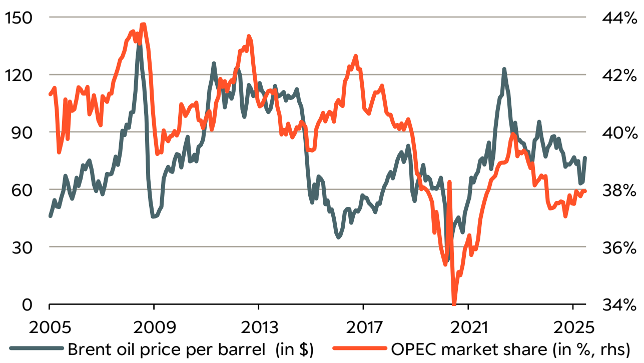
Industrial metals caught between conflicting customs policies

The announcement of reciprocal tariffs and the associated fears of slower growth led to sharp price losses on industrial metal markets, with copper losing up to 15% of its value at times. Despite the new tariffs on steel and aluminum imports, some industrial metals recovered quickly. This was due to advance demand triggered by concerns that the tariffs would be extended to other metals and by low inventories. Although US trade policy remains a driving factor and a noticeable economic upturn is needed for a sustained positive price trend, structural demand remains unbroken due to the green transformation and increased infrastructure and defence spending, and should continue to support industrial metal prices in the medium to long term.

Mirko Schmidt, Analyst Multi-Asset Strategy & Research

OPEC+ attempts to regain lost market share

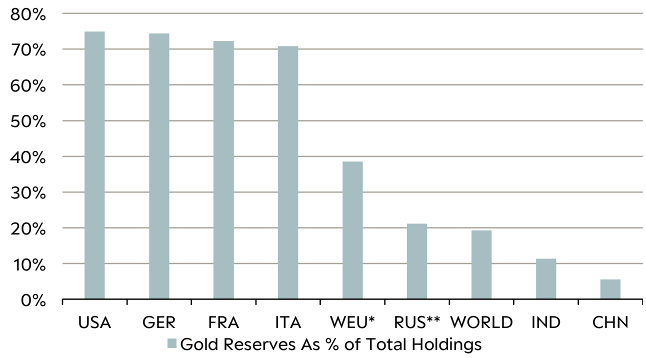
Brent oil price per barrel (in USD) and OPEC market share (in %)



Time period: 01/01/2005–17/06/2025.
Source: Bloomberg, own calculations

Central banks are likely to further increase their gold reserves

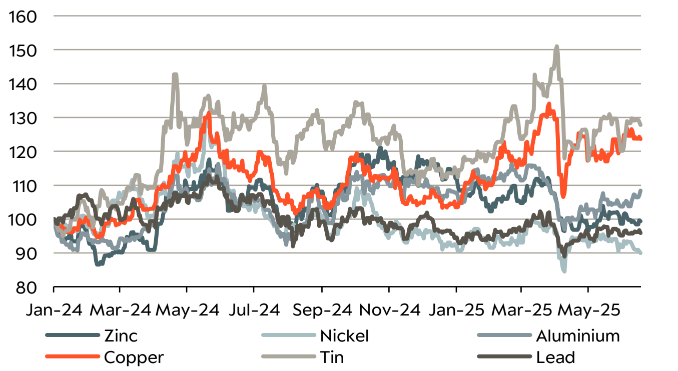
Percentage of gold reserves in total central bank assets



As of: 31.03.2025
Source: World Gold Council; *Western Europe, **Russia before 2022

Tariff shock weighs on industrial metals

Development of nickel, aluminium, zinc, copper, tin, and lead indexed to 100 on 1 January 2024



Time period: 01/01/2024–17/06/2025
Source: Bloomberg, own calculations

US dollar loses ground, yen gains momentum

The weak dollar is here to stay

The euro appreciated by more than 10% against the US dollar in the first five months of the year. This was due to concerns about spiraling US government debt, Trump's erratic economic policy, the robust economy in the eurozone and the prospect of increased fiscal spending on the old continent, especially in Germany. In the coming months, US fiscal policy (keyword: Section 899), economic data and central banks are likely to be the most important factors influencing the euro-dollar exchange rate, alongside trade policy. The market currently expects the Fed to cut its key interest rate twice more by the end of the year, by 25bp each time. However, we see no scope for further monetary easing by the US Federal Reserve due to persistent inflationary pressure. If the market's expectation of persistently higher interest rates in the US prevails, the dollar could benefit. On the other hand, the US economy is likely to lose further momentum in the coming months, while the eurozone could gain some traction. This would in turn favour the euro. The opposing effects are likely to cancel each other out. Overall, we therefore expect the euro-dollar exchange rate to trend sideways until the end of the year. In the long term, however, the dollar is likely to come under even greater pressure due to the loss of confidence in the US caused by Trump. This is particularly true given that the Trump administration itself is also aiming for a weaker US dollar.

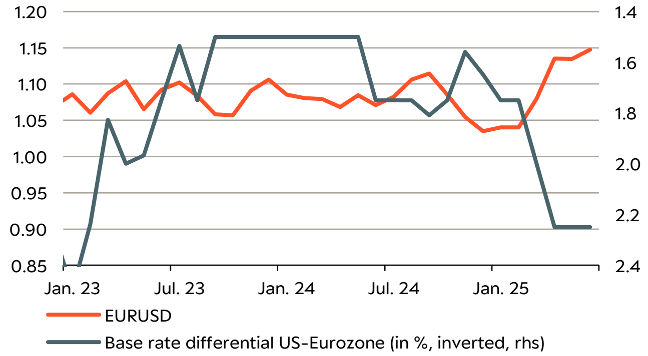
BoJ caught between rising inflation and economic concerns

Japan's core inflation rate stood at 3.5% in April, well above the target of 2%. This would normally call for further key interest rate hikes. At the same time, however, US tariffs are having a negative impact on the economy. Japan is particularly hard hit by the tariffs on cars. In addition, the slowdown in the Chinese economy due to the tariff dispute with the US is also having a negative impact on demand for Japanese products. The Bank of Japan (BOJ) will therefore raise its key interest rate only very slowly. This could nevertheless give the Japanese yen some tailwind for the rest of the year, as all other major central banks in industrialised nations are currently leaving interest rates at their current levels or even lowering them further. In addition, the yen continues to benefit from its status as a safe haven in times of uncertainty.

Dr. Felix Schmidt, Senior Economist

Dollar loses ground despite growing interest rate differential against the euro

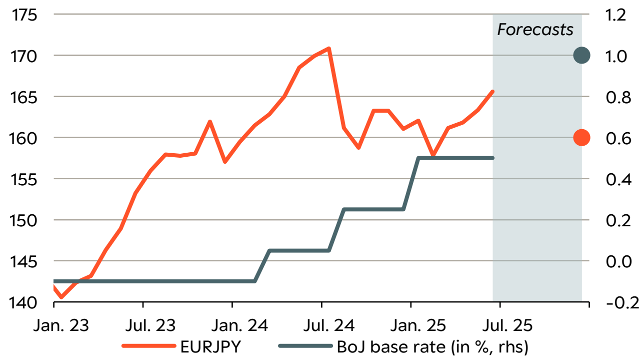
Donald Trump's disastrous economic policy weighs on the greenback



Time period: 01/01/2023–20/06/2025.
Source: Haver Analytics

Japanese yen to benefit from further interest rate hikes

BoJ cautiously raises interest rates



Time period: 01/01/2023–20/06/2025.
Source: Haver Analytics

Exchange rate forecasts

Berenberg and consensus forecasts compared, figures for the end of 2025 and mid-2026

	20/06/2022	31/12/2025		30/06/2026	
Exchange rate forecast	**Currently**		**Ø***		**Ø***
EUR/USD	1.15	1.14	1.15	1.16	1.18
EUR/GBP	0.85	0.86	0.86	0.86	0.86
EUR/CHF	0.94	0.95	0.95	0.95	0.96
EUR/JPY	167	160	161	159	160
Change against the euro (in %)					
USD	-	0.9	-0.0	-0.9	-2.5
GBP	-	-1.2	-1.2	-1.2	-1.2
CHF	-	-1.1	-1.1	-1.1	-2.1
JPY	-	4.4	3.7	5.0	4.4

* Average, consensus as of 20/06/2025.
Source: Bloomberg






Interview with Tobias Schäfer

Tobias, you are responsible for the Fund Strategies and Manager Selection team at Berenberg. What are the main tasks of the team and how did you come to your current position?

Our team has two central tasks: firstly, we manage the fund strategies, ie the asset management strategies that exclusively use funds. Additionally, we provide support in the selection of funds and ETFs for our multi-asset solutions and advisory business. Investment strategies have been part of my career since the beginning. I was already concerned with the question of how to select sensible strategies back when I completed my studies while working at a savings bank. I was later able to deepen these basics in my Master's degree, particularly when writing my final thesis on fund selection. To this day, I am fascinated by how investment strategies are designed and what their added value is for investors.

How does your work differ from that of other portfolio managers? What do you particularly enjoy about it?

While traditional portfolio managers often analyse individual stocks or bonds, we focus on funds and ETFs. We delve deep into the respective strategies in order to work out how they differ – and above all in which market environment that approach offers added value. The portfolios of our fund strategies are focused, but nevertheless cover a wide range of companies thanks to the broad diversification within the selected funds. The challenge lies in the intelligent combination of these strategies – in terms of weights, correlations and characteristics. This makes our work particularly exciting. In addition, there are client meetings in which we develop individual solutions, as well as discussions with fund managers from a wide range of market segments. These perspectives broaden our view and feed directly into our platform.

How do you approach the selection process for investment funds, especially for active fund managers? In your opinion, what characterises a good fund manager?

Our selection process is multi-staged and focused on identifying strategies that can draw from past successes via a structured investment process. Starting with quantitative analysis, we evaluate historical data using specialised tools – including our own analysis tool that we developed in-house. On this basis, we hold discussions with the managers of the most promising funds. We are not only interested in the analytical results, but also in understanding the mindset, motivation and consistency of the management. A good fund manager convinces through a clear process – and the ability to implement this in a disciplined manner.

Besides active funds, you also analyse ETFs. When do you prefer ETFs, and when active funds? What is important when choosing ETFs, apart from the costs?

We do not take a dogmatic approach, neither proactive nor propassive. The decisive factor for us is which strategy enables us to implement an investment case most efficiently and sensibly in terms of costs. ETFs are ideal for implementing tactical considerations, especially in efficient markets or for managing quotas. However, we rely on active strategies to generate alpha. Although ETFs are generally regarded as simple, the devil is often in the detail. In addition to the costs, tax considerations, the method of replication and the place of issue play an important role. Particularly in the apparently homogeneous market of S&P 500 ETFs, such details can lead to performance differences of 20bp or more. This is another area where we have the potential to create real added value for our investors through product selection.

A trend from the US is spilling over into Europe: more and more "active" ETFs are coming onto the market. What is behind this development, and does it blur the boundaries between active and passive investing?

Classic ETFs replicate a benchmark as closely as possible – passively and rule-based. Active ETFs, on the other hand, aim to beat this benchmark. To achieve this, they deliberately deviate in their selection. In contrast to traditional funds, however, their scope is often more narrowly defined – for example via bandwidths or factor specifications. Therefore, they are often rule-based approaches with an active approach. In the US, this trend is encouraged by tax advantages; in Europe, growth is somewhat slower but steady. These new active ETFs combine the transparency, tradability and cost structure of an ETF with active elements – a concept that definitely has potential.

In June, Berenberg launched the new fund-based asset management strategy "Berenberg Go". What makes this strategy special and who is it suitable for?

"Berenberg Go" combines our in-house expertise with the flexibility and efficiency of ETFs. The active management of asset class quotas is a central element of the investment strategy. Furthermore, we focus on specific Berenberg fund solutions and combine these with ETFs. This allows us to integrate gold and commodity investments alongside equities and bonds, and broadly cover the multi-asset universe. The result is a modern, cost-efficient and dynamically managed strategy. The strategy is aimed at discerning investors who are looking for professional asset management with discretionary control and targeted alpha opportunities – and who rely on a well-thought-out combination of active and passive components.

How does "Berenberg Go" differ from the classic "Berenberg Multi Manager" fund strategy?

The main difference lies in the range of funds used. While "Berenberg Go" works with internal funds and ETFs, "Berenberg Multi Manager" also incorporates selected strategies from external providers – following a best-in-class approach. However, both strategies share the same philosophy: active quota management, strategic inclusion of alternative investments such as gold, and a structured selection process. They are therefore two variants of the same basic conviction – differing in the depth of implementation.

How has the fund landscape changed in recent years? Which trends are currently still underestimated?

The ETF trend has changed the fund landscape considerably. Today, many markets and themes can be mapped cost-efficiently – and can be managed flexibly thanks to exchange trading. The field of active ETFs is particularly dynamic. Even if their growth in Europe is slower than in the US, their potential should not be underestimated. In addition, I see a renaissance of active funds – particularly in the bond sector, but increasingly also in equities. This is because the market is becoming more selective: the dominance of a few large technology stocks could become less important. This creates more opportunities for active management. However, it remains challenging to identify strategies that add value. Herein lies our claim – and our task.

Brief biography

Tobias Schäfer is portfolio manager and Head of Fund Strategies and Manager Selection at Berenberg. He is responsible for the selection of funds and ETFs across all regions and asset classes. He is also responsible for the management and further development of fund strategies. Tobias joined Berenberg in 2018 as a portfolio manager and fund selector, having previously worked at Union Investment as a multi-asset portfolio manager. Tobias holds a Master of Finance degree from the Frankfurt School of Finance & Management.

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